

Thermax Ltd

Execution surprises on the upside

Thermax' (TMX) Q2FY11 results were ahead of expectations on back of better-than-estimated execution. Energy business segment revenues grew by ~72% Y-o-Y, while the environment segment revenues grew by ~51% Y-o-Y leading to a revenue growth of 61.3% Y-o-Y to Rs 10.9 bn in the quarter. PAT at Rs 895mn was up by 65.4% Y-o-Y in the quarter. Consolidated order backlog at the end of Q2FY11 was at Rs 72.8 bn, implying an order inflow of ~ Rs 14 bn in the quarter. While the results for the quarter have been impressive, we do not expect significant upgrades to FY12E given the H1FY11 order inflows of ~Rs 32 bn (our expectation of Rs 6100 bn in FY11E). We roll over to September 2011 and upgrade our target price to Rs 850 (from Rs 710), implying a target PE of 20x. Maintain Hold.

Order inflows in line with estimates: Order backlog at the consolidated level was at Rs 72.8 bn (up 44% Y-o-Y) at the end of Q2FY11. This implies order inflows of ~Rs 14 bn in the quarter. The order inflows have been in line with our expectations for the quarter. Currently at the standalone level we estimate order inflows of ~Rs 60 bn for FY11E. The order inflows at the standalone level were at Rs 13 bn in the quarter. With order inflows of ~Rs 32 bn in H1FY11, we believe the probability of order inflows beating our estimates for FY12E remains high. We believe any significant big ticket order is likely to lead to upgrades in FY12E estimates and be a positive trigger for the stock.

Margins steady: EBITDA margins expanded 10 bps Y-o-Y to 11.8% in the quarter, even as raw material costs increased (percentage of sales). However on a segmental basis margins were lower in the energy segment by 120 bps Y-o-Y in the quarter possibly to higher outsourcing content in the revenues mix during the quarter.

Investment view: On first cut basis we believe Q2FY11 results present a case for robust execution in FY11E, with H1FY11 revenues up ~54% Y-o-Y. However we highlight that H1FY10 was weak (revenues at Rs 12.2 bn, lower than H1FY08 and H1FY09) for the company and hence the growth profile is likely to be lower in H2FY11E compared to H1FY11. However if order inflows surprise on the upside in the subsequent quarters, earnings upgrades are likely. On the call tomorrow we would look for a) order inflows expectations in the subsequent quarters, b) scale up in the Thermax-B&W JV. At our estimates the stock trades at a P/E of 27.6x and 21.4x for FY11E and FY12E respectively. Maintain Hold.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 799	Rs 850	HOLD	LOW

BSE	NSE	BLOOMBERG
500411	THERMAX	TMX IN

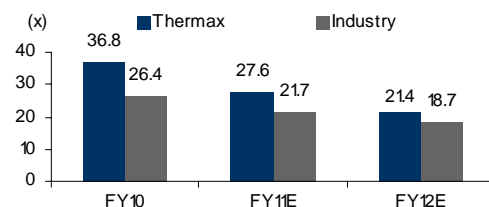
Company data

Market cap (Rs mn / US\$ mn)	95,247/2,143
Outstanding equity shares (mn)	119
Free float (%)	33.9
Dividend yield (%)	0.6
52-week high/low (Rs)	867 / 465
2-month average daily volume	85,468

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Thermax	799	1.7	4.9	10.4
BSE CG	15,929	0.1	6.7	12.8
Sensex	20,005	(0.6)	10.7	13.1

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	36.8	27.6	21.4	16.9
P/E @ Target	39.1	29.3	22.7	17.9
EV/EBITDA @ CMP	23.2	16.7	13.2	11.3

In the interest of timeliness this report has not been edited.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	33,703	47,155	60,001	70,000
Growth (%)	(2.6)	39.9	27.2	16.7
Adj net income	2,592	3,456	4,458	5,648
Growth (%)	(9.9)	33.4	29.0	26.7
FDEPS (Rs)	21.8	29.0	37.4	47.4
Growth (%)	(9.9)	33.4	29.0	26.7

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	11.7	11.6	11.6	11.6
EBIT margin	10.4	10.6	10.7	10.7
Adj PAT margin	7.7	7.3	7.4	8.1
ROE	25.0	28.3	28.6	28.5
ROIC	33.7	40.6	41.0	37.7
ROCE	43.6	57.1	55.3	48.4





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	10,916	9,941	9.8
EBITDA	1,286	1,173	9.6
Adj net income	895	779	15.0
FDEPS (Rs)	7.5	6.5	15.0

Source: Company, RCML Research

Fig 2 - Quarterly performance

(Rs mn)	Q2FY11	Q2FY10	% Chg YoY	Q1FY11	% Chg QoQ	Q2FY11E	Variance (%)
Net sales	10,916	6,770	61.3	7,898	38.2	9,941	9.8
Less: Direct Cost	7,432	4,268	74.1	5,249	41.6		
Staff Cost	990	702	40.9	753	31.4		
Other Expenses	1,208	1,007	20.0	936	29.1		
Expenditure	9,630	5,977	61.1	6,938	38.8		
Operating profit	1,286	792	62.3	960	34.0	1,173	9.6
Other income	133	142	(6.2)	140	(4.7)		
Interest	5	1	245.9	6	(18.7)		
Depreciation	105	104	1.2	106	(0.8)		
PBT	1,309	829	57.9	988	32.5	1,183	10.7
Tax	414	288	43.7	326	26.9		
Reported PAT	895	541	65.4	662	35.3		
Adj. PAT	895	541	65.4	662	35.3	779	15.0
EBITDA margin (%)	11.8%	11.7%	8 bps	12.2%	-37 bps	11.8%	-3 bps
EPS (Rs)	7.51	4.5	65.4	5.6	35.3	6.5	15.0

Source: Company, RCML Research

Fig 3 - Segmental snapshot

(Rs mn)	Q2FY11	Q2FY10	Q1FY11
Segmental			
Energy	8,910	5,188	6,066
as a % of total revs	82%	77%	77
Environment	2,482	1,640	2,221
as a % of total revs	23%	24%	28
Less: Inter segment rev	475	58	388
as a % of total revs	-4%	-1%	-5%
Net revenue	10,916	6,770	7,898
EBIT			
Energy	913	593	680
EBIT margin(%)	10.2%	11.4%	11
Environment	308	205	269
EBIT margin(%)	12.4%	12.5%	12
Others			
Total EBIT	1,221	798	949
Capital employed			
Energy	1,143	1,250	1,915
Environment	1,395	929	1,384
Unallocate	9,397	8,464	7,681
Total	11,935	10,644	10,979

Source: Company, RCML Research



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	33,703	47,155	60,001	70,000
Growth (%)	(2.6)	39.9	27.2	16.7
EBITDA	3,947	5,471	6,963	8,086
Growth (%)	(6.4)	38.6	27.3	16.1
Depreciation & amortisation	442	484	539	581
EBIT	3,505	4,987	6,423	7,505
Growth (%)	(9.4)	42.3	28.8	16.8
Interest	20	40	52	52
Other income	519	442	534	681
EBT	4,004	5,389	6,905	8,134
Income taxes	1,416	1,837	2,351	2,778
Effective tax rate (%)	35.4	34.1	34.0	34.1
Extraordinary items	(1,149)	-	-	-
Min into / inc from associates	(4)	96	96	(292)
Reported net income	3,740	3,456	4,458	5,648
Adjustments	1,149	-	-	-
Adjusted net income	2,592	3,456	4,458	5,648
Growth (%)	(9.9)	33.4	29.0	26.7
Shares outstanding (mn)	119.2	119.2	119.2	119.2
FDEPS (Rs) (adj)	21.8	29.0	37.4	47.4
Growth (%)	(9.9)	33.4	29.0	26.7
DPS (Rs)	5.0	5.0	5.0	5.0

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	3,034	3,940	4,998	6,229
Non-cash adjustments	(16)	-	-	-
Changes in working capital	4,687	(3,908)	326	218
Cash flow from operations	7,705	32	5,323	6,447
Capital expenditure	(838)	(389)	(766)	(517)
Change in investments	(2,260)	(193)	(750)	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(3,098)	(582)	(1,516)	(517)
Issue of equity	-	-	-	-
Issue/repay debt	39	-	-	-
Dividends paid	(695)	(695)	(695)	(695)
Other financing cash flow	(945)	96	96	(292)
Change in cash & cash eq	3,006	(1,149)	3,208	4,943
Closing cash & cash eq	6,702	5,554	8,762	13,706

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	11.3	11.3	11.3	11.3
ROIC (%)	33.7	40.6	41.0	37.7
Invested capital (Rs mn)	10,862	13,719	17,578	22,239
EVA (Rs mn)	242,880	401,639	522,915	587,056
EVA spread (%)	22.36	29.28	29.75	26.40

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	6,702	5,554	8,762	13,706
Accounts receivable	7,984	10,800	13,797	16,125
Inventories	2,563	3,600	4,595	5,373
Other current assets	7,057	11,170	13,821	15,931
Investments	3,703	3,896	4,646	4,646
Gross fixed assets	7,418	7,921	8,687	9,204
Net fixed assets	5,369	5,389	5,615	5,551
CWIP	115	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(144)	(144)	(144)	(144)
Other assets	0	-	-	-
Total assets	33,350	40,264	51,092	61,188
Accounts payable	21,409	25,066	31,642	36,772
Other current liabilities	-	-	-	-
Provisions	985	1,386	1,778	2,083
Debt funds	80	80	80	80
Other liabilities	94	94	94	94
Equity capital	238	238	238	238
Reserves & surplus	10,544	13,401	17,260	21,921
Shareholder's funds	10,782	13,639	17,498	22,160
Total liabilities	33,350	40,264	51,092	61,188
BVPS (Rs)	90.5	114.5	146.9	186.0

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	11.7	11.6	11.6	11.6
EBIT margin	10.4	10.6	10.7	10.7
Net profit margin	7.7	7.3	7.4	8.1
ROE	25.0	28.3	28.6	28.5
ROCE	43.6	57.1	55.3	48.4
Working Capital & Liquidity ratios				
Receivables (days)	74	73	75	78
Inventory (days)	48	38	39	40
Payables (days)	308	284	269	275
Current ratio (x)	1.1	1.2	1.2	1.3
Quick ratio (x)	0.7	0.8	0.8	0.8
Turnover & Leverage ratios (x)				
Gross asset turnover	4.8	6.1	7.2	7.8
Total asset turnover	3.2	3.8	3.8	3.5
Interest coverage ratio	172.7	124.1	122.5	144.5
Adjusted debt/equity	0.0	0.0	0.0	0.0
Valuation ratios (x)				
EV/Sales	2.7	1.9	1.5	1.3
EV/EBITDA	23.1	16.7	13.1	11.3
P/E	36.6	27.4	21.3	16.8
P/BV	8.8	7.0	5.4	4.3



Quarterly trend

Particulars	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Revenue (Rs mn)	6,804	7,482	12,193	7,898	10,916
YoY growth (%)	(15.4)	(5.9)	28.6	46.9	60.4
QoQ growth (%)	26.6	10.0	62.9	(35.2)	38.2
EBIT (Rs mn)	689	790	1,365	854	1,179
EBIT margin (%)	10.1	10.6	11.2	10.8	10.8
Adj net income (Rs mn)	541	565	992	662	894
YoY growth (%)	(5.0)	(21.8)	6.7	42.3	65.2
QoQ growth (%)	16.4	4.5	75.5	(33.3)	35.1

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	67.9	64.7	64.1	64.6	69.4
Interest burden (PBT/EBIT)	109.5	114.2	108.1	107.5	108.4
EBIT margin (EBIT/Revenues)	11.2	10.4	10.6	10.7	10.7
Asset turnover (Revenues/Avg TA)	644.0	491.4	528.2	565.4	558.8
Leverage (Avg TA/Avg equity)	102.4	101.7	101.9	102.5	102.6
Return on equity	32.9	25.0	28.3	28.6	28.5

Company profile

TMX provides solutions in the energy and environment space. The energy business contributes ~80% to revenues, whereas the environment business contributes ~20%. Further, 20% of revenues are from products and 80% of revenues are from projects. The company's market share for chillers is 90%, 35-38% for boilers and heaters, 8% for water and waste water, 35% for chemicals, and ~60% for air treatment divisions.

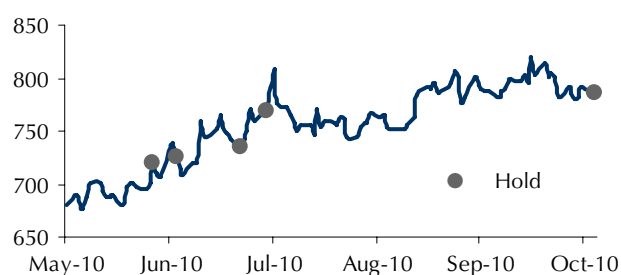
Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	62.0	62.0	62.0
FIs	9.1	9.1	9.2
Banks & FIs	15.3	15.3	15.2
Public	13.7	13.6	13.6

Recommendation history

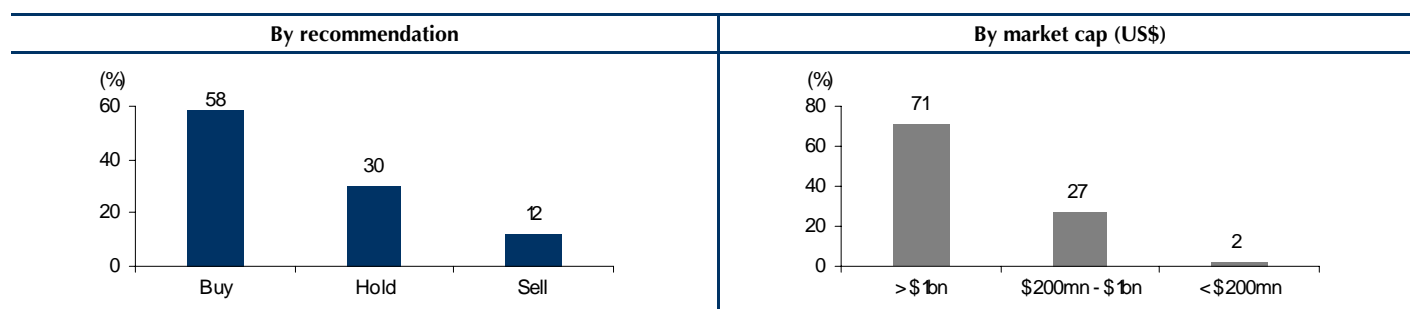
Date	Event	Reco price	Tgt price	Reco
21-Jun-10	Initiating Coverage	710	710	Hold
24-Jun-10	Company Update	725	710	Hold
12-Jul-10	Company Update	738	710	Hold
21-Jul-10	Results Review	784	710	Hold
27-Oct-10	Results Review	799	850	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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